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From:

Sent: Wednesday, October 19, 2011 4:50 PM

To:

Cc:

Subject: Question about transportation income

I apologize for not being able to get back to you sooner concerning your telephone message. I tried to phone you and missed you and then other matters intervened. I would like to have heard more facts about the contract and taxpayer(s) you were thinking about when you left the message. However, in general, the income from personal services performed onboard a vessel will only be treated as transportation income if it is earned by a nonresident alien individual for services performed between the U.S. and a possession. If that were the case, and it was not effectively connected with a US trade or business, within the meaning of section 887(b)(4), then the income could be subject to the 4% tax on US source gross transportation income. Such income is not subject to withholding. If the services are performed onboard vessels operating between the US and a foreign country or between foreign countries and not within the territorial limits of any such country, I advised that the income would be characterized and sourced as ocean activity income and I agree. But the character of the income could be different depending on the contracts and who the taxpayers are.

I will be happy to discuss it with you further if you have any more questions.

Best regards,